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THE STRENGTHENING OF GERMAN WAR ECONOMY

~~Report No. 70~~

R. a 658

July 28, 1942

Copy No. 18 A

(1985)

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SUMMARY AND CONCLUSIONS

Fundamental changes in German economic output, organization, and control have been made during the present year.

Miscarriage of plans in Russia and entry of the United States into the war have necessitated squeezing the last measure of output from available productive resources.

The measures taken fall into five main categories designed (1) to increase efficiency and production in the armament industry; (2) to maintain output with a reduced labor force in basic industry and civilian manufacture; (3) to simplify administrative organization and procedure; (4) to coordinate all labor-saving and recruiting activities; and (5) to conserve food stocks. Agriculture, which was already highly centralized, does not appear to have come in for special attention; although attempts were doubtless made to increase the supply of captive and other foreign labor used in the fields. In fact, last April's reduction in rations may reflect the impossibility of increasing food supplies within the next year.

The measures taken in Germany undoubtedly reflect a considerable degree of economic strain. If successfully carried out, it is probable that little slack will remain in the German economy. Future efforts to maximize output will necessarily be confined to European areas outside the Reich.

No basis exists, however, for concluding that the Nazi economy must soon collapse, or even that the scale of supreme effort will soon be reduced. While the Nazi Party in executing the economic reorganization program has retained and consolidated its position of leadership, it has also received the support of the Army and the industrialists. There is no evidence of friction between these three chief power-wielding groups in Germany. A sense of determination, rather than desperation, pervades the new economic measures.

THE STRENGTHENING OF GERMAN WAR ECONOMY

INTRODUCTION

Germany's war effort has entered a new phase. In the course of the last six months, a series of administrative measures has been taken with the purpose of increasing the efficiency and productivity of the German economy. The changes wrought are so extensive that there can be no doubt of their deep significance. Carefully appraised, they may contain an important clue to economic and political conditions in Germany. Three questions may be asked:

1. What precipitated the overhaul of the German economic organization at this particular time?

2. Which of three power-wielding groups -- the party, the Army, and the industrialists -- assumed leadership and gained strength in the reorganization?

3. What are the nature, purpose, and quantitative importance of the new measures?

There can be little doubt that the chief impulse to reorganize German economic administration sprang from the heavy losses of men and materiel suffered in Russia without destroying Soviet power. Failure of the drive on Moscow made apparent that a new major effort in 1942 would be required. For this, it would be necessary to replace losses by "combing out" of industry some two to three million men, many of whom had been left at their jobs because of their occupational value. It was also necessary to accomplish this with no decrease in output. Entry of the United States into the war, and recognition that Germany's opponents would no longer grant her opportunity to recover between campaigns, were additional factors in the decision to overhaul German economy. German leadership no doubt looked ahead to 1943 and beyond in shaping the program.

While the new measures have a common purpose and were introduced within a comparatively short period of time, it would be wrong to assume that they were systematic plans carefully worked out in advance. Partial measures were introduced at an early date, and were later followed by more fundamental decisions. As the program evolved, it revealed the basic objectives of eliminating waste and inefficiency and of saving manpower.

Leadership in the reorganization appears to have been taken by the Nazi Party. Army demands for more men may have provided the primary impulse, but the program shows

evidence of having been largely conceived in party councils. New key posts have been assigned to party men; and of greatest significance, perhaps, is the fact that control over the armament industry has passed from the Army and industry to the party. An advisory council of generals and industrialists has no other functions than that of advising the Ministry of Armaments and Munitions. There is, however, no evidence of friction or dissension in all this. On the contrary, the picture is one of determined cooperation to overcome common obstacles with party leadership. Under pressure of necessity, traditional attitudes, political considerations, and similar determinants of public policy and administration in Germany, as elsewhere, appear to have been subordinated to logic and efficiency. This conclusion is based on the examination of the program itself.

The measures that have been taken fall under the five following headings:

I. Measures Relating to Armaments and Munitions

II. Measures Relating to Concentration of Production

III. Reorganization of Economic Structure

IV. Measures Relating to Labor

V. Measures Relating to Agriculture

To evaluate the quantitative importance of the new measures would require knowledge of two factors: the number and source of the men called into military service since last autumn, and the amount of "slack" that existed in the German economy before last January. If estimates that two or three million men have been withdrawn in the past eight to ten months are correct, it is apparent that the task of maintaining output at previous levels is a formidable one.

The deficit cannot readily be made good by use of foreign labor. Laval's inability to keep his promise to deliver 350,000 French workers is an indication of the situation. Moreover, the net gain to Germany from foreign labor can readily be exaggerated; not only does Germany lose the output of the worker in his native land (there is little unemployment among skilled workers anywhere in Europe); but in Germany, he has to be given better rations, since this is the chief inducement offered.

Within Germany itself, of course, there were labor resources which were untapped before the present program began. Women, children, the aged, and infirm are now being utilized to the fullest; but they are scarcely adequate replacements

for the men withdrawn, even if available in similar numbers. Nazi expectations of additional manpower, therefore, depend upon whatever labor economies will result from the new administrative measures.

What will be the value of these administrative measures? In the past, German economic organization has been widely regarded as a model of efficiency. If, in fact, there was previously little slack in the administration of government and industry, the quantitative importance of the new economic measures will be limited. The magnitude of the program, however, suggests dissatisfaction with the operation of the old system; and it indicates that important results are expected. Whether these are realized to the full or not, it is plain that the German nation is now engaged in an all-out effort. To appraise incorrectly either the military or the economic potentialities of the program, or to misread its strategic implications, might well constitute a major blunder on the part of Germany's opponents.

I. MEASURES RELATING TO ARMAMENTS AND MUNITIONS

The new economic measures concerned directly with armament production are designed to increase output. The entire industry has been placed under the control of the Minister of Armaments and Munitions, Albert Speer, a trusted party member of long standing and the successor to Todt. To increase the efficiency of production, expert technicians -- organized in committees for each major product -- have been given wide authority. An Armament Council has been created. A new and important price system has been introduced for munitions contracts. Finally, a decree for the protection of the armament industry was issued, designed to reduce inventory reserves of essential materials and equipment in each plant still further.

1. Concentration of Control Under the Ministry of Armaments and Munitions

Every phase of armament production has finally been placed under the supervision and control of Albert Speer. Typically, this change was accomplished piecemeal by various measures over a period of about six months. One of the most significant of these measures was taken only very recently, when the Supreme Command of the Army had to transfer its regional Armament Inspection Bureaus and Armament Commands (Ruestungsinspectionen and Ruestungskommandos) to the Ministry of Armaments and Munitions. As a result of this transfer, administrative staffs are now under Speer's control in each army district, including the occupied territories. General Thomas, one of Nazi Germany's leading military economists, who as head of the Armament Bureau of the Supreme Command was in charge of the Armament Inspection Bureaus, is now placed under the authority of the Ministry of Armaments and Munitions.

Speer has also assumed great influence in the field of labor. The all-important "Combing-Out" Commissions (Prüfungsstellen) operate under his authority; and it was at his request that Goering appointed Sauckel Commissioner-General for the mobilization of Labor.

2. Central Committees of Experts and Armament Council

A further evidence of increasing concentration and unification of control over armament production is the establishment of a system of so-called Central Committees of Experts (Hauptausschüsse), and the creation of an Armament Council both of which operate under the authority of Speer.

These committees were set up beginning early in 1942 by the Ministry of Armaments and Munitions in agreement with Reich Marshal Goering, the Army, the office of the Four Year Plan, and representatives of industry. The committees cover the various major mass products of the armament industry, such as tanks, airplanes, etc.; and they consist exclusively of technical experts and construction engineers. They have the authority to allocate orders and raw materials, to supervise the exchange of technical information, and to direct the specialization of certain plants in the mass production of simple articles. Wherever these Committees of Experts are concerned with certain products -- such as ball-bearings, which are used in a large number of articles -- special national committees of all the industries involved (Industrieringe) are set up. In this case, the members of the Central Committees of Experts are represented on the Industrieringe.

Throughout, the basis aim is to raise productivity and increase output.

Practical and valuable results are expected from the work of the Central Committees of Experts. In a recent article, Speer referred to the success of previous efforts at rationalization, and he pointed out that experts consider it possible to increase output of many armament and munitions plants by 25 percent. This expectation seems sanguine. Moreover, there is the question of how many plants can be further rationalized. In any case, the absence of pertinent data precludes quantitative estimates of possible results.

The importance of the Committees of Experts is further emphasized by the fact that they have recently been coordinated by the newly established Armament Council. This Council, composed of five top-ranking generals and eight leading industrialists, is attached to the Ministry of Armaments and Munitions in an advisory capacity.

The Ministry of Armaments and Munitions seems to rely increasingly on technical experts. Special economy engineers (Sparingenieure) have been attached (by Speer) to the "Combing-Out" Commission for the building industry. They examine all construction plans with a view to economy of materials. Only approved plans receive materials from the Boards of Allocation. There is no political significance to be attached to this extended use of technical experts. Rather, it reflects an old tendency among the colonels and major generals of the German Army, to make greater use of expert economic and scientific advisers than the legally minded bureaucrats who dominate the ordinary ministries.

3. New Pricing System

From the point of view of its possible economic

significance, the introduction of a new pricing system for army contracts is probably even more important than the measures outlined above. Thus far, prices in government contracts for armaments and munitions were based essentially upon the "cost-plus" principle, i.e., prices were based upon the costs of production of the individual producer. This system not only made for great diversity of prices for the same item, but also made it relatively easy to pass on any increase of costs to the government in the form of higher prices. This removed any incentive for the individual firm to keep costs down through greater efficiency in production. The cost-plus pricing system, therefore, increased the total costs of armament production; and by raising government expenditures, endangered the success of any price-stabilization program.

The new pricing system for government orders of armaments and munitions is designed to remedy these defects of the "cost-plus" pricing rule. Instead, it provides for a system of uniform prices for all army contracts. All producers of a given article are classified into not more than five groups, according to their relative productive efficiency, as reflected in their costs of production.

For each group, the Supreme Command of the Army, in cooperation with the Price Commissioner, fixes a uniform group price for each item which becomes the standard price for all members of the group. In other words, there may be from one to five different group prices for every army item; each firm obtains the price which has been fixed for its particular group.

Significantly, the uniform price is determined on the basis of the costs of production of a relatively good firm in each group, not average costs for the group and especially not those of the least efficient firm in the group. Thus, some firms are placed in the position of having their past profits sharply curtailed, and perhaps of suffering financial loss.

Nothing is said about the fate of firms which produce at costs higher than the group price. They will not, of course, be permitted to cease operations merely because they suffer a financial loss; and it is presumably hoped that the desire for profits will induce most such firms to take steps to lower their costs until profits appear. If they fail to do so, the alternative would seem to be bankruptcy or government expropriation.

Membership in Group I has been made especially advantageous to induce profit-making firms in the lower groups to reduce costs. Firms in this group are not subject to the excess profits tax, and they are given priority with respect

to labor and materials. On the other hand, firms which are not able to produce at costs sufficiently low to place them in Group I will be subject to excess profits deductions and will recieve less favorable treatment in the allocation of materials and labor. In the event of serious shortages, firms in the lower groups would be forced to shut down temporarily before any firms in higher groups.

With possible profits as the incentive and possible plant shutdown as the punishment, German industrialists are expected to exert themselves to the utmost. Price Commissioner Fischbock declared in April, 1942, that numerous firms have requested that they be placed in Group I of their respective industries. Moreover, he pointed out that one-third of all deliveries for the Army had already been placed under the new pricing system. All armament commodities will supposedly be covered during the summer. There are even some suggestions that the system may be extended to non-armament industries. The new pricing system, which in some quarters is hailed as a return to the competitive price mechanism, is expected to give substantial yields in terms of greater productive efficiency, lower costs of production, and resulting reductions of war expenditures.

However, the actual effects of the uniform group prices will depend upon the degree of inefficiency and slack that existed in German war industries prior to the introduction of the new pricing system. It would certainly be wrong to assume that the efficiency of German war industries during 1939-1941 permitted no improvement. It is more than likely that the "cost-plus" pricing system in Germany has had the negative effects outlined above. Therefore, it may well be that the uniform group pricing system will have the effect of an over-all improvement in the performance of German war industries.

On the other hand, certain weaknesses and extreme complexities of any system of uniform group prices will constantly interfere with its effective operation. The problems of cost calculations involved in the new measures must be tremendous. Thus, the Neue Tag, a German paper published in Prague, revealed that group prices now cover 600 different kinds of products. One single product, namely, army uniforms, is itself composed of 500 sub-groups. The same paper admits that the introduction of the uniform group pricing system has not been without difficulties, and that there remain many products for which the system of uniform group prices cannot be adopted. In these fields, it will be necessary, therefore, to maintain the system of different individual prices.

4. The Decree for the Protection of the Armament Industry, March 21, 1942

In line with the general drive for greater efficiency

and output of armaments and munitions, is the March decree "For the Protection of the Armament Industry" issued and signed by Hitler and by General Keitel, Chief of the Supreme Command of the Army. This decree provides for severe penalties, including death, for any person who makes incorrect statements regarding needs or supplies of essential raw materials, of machinery, and of manpower. The decree is retroactive; but three months' grace is allowed for correcting erroneous statements.

The decree is aimed at the practice of requesting essential materials and manpower far in excess of amounts actually required, anticipating a cut by the Allocation Boards. It should be pointed out that this practice had become all but universal and thus discouraged honest reporting. Behind it lay a deep-seated distrust between the government civil service and business, which in view of the excessively stringent system of regulation, was natural.

As a result of this practice, the firms with the most excessive requests often obtained essential labor and materials beyond immediate needs. For example, the Frankfurter Zeitung of April 16, 1942, reports a case of a firm which needed 640 tons of a certain material, but handed in a request for 5000 tons and in this case actually got them. Such a wide range between needs and requests is, of course, an unusual case and is used by the press precisely because of its sensational character.

The decree does not constitute a new approach to the problem. A decree of August, 1939, (Verordnung uber den Warenverkehr) already provided penalties for misstatements in connection with requests for materials and fraudulent securing of approvals. These penalties are now more severe, and this need for increased severity may indicate that producers have compelling reasons to evade the law. Producers must have on hand at any given time more than a day's supplies of raw materials, if the first interruption in the flow of such materials to factories is not to cause production to stop altogether.

Even severe penalties cannot do away with this necessity. The new measure, therefore, will probably eliminate the worst abuses; but its over-all results should not be overestimated. Indeed, if the new device should have the effect of forcing manufacturers to reduce their raw material inventories below a certain safe minimum, it may well defeat the objective of increasing total output.

II. MEASURES RELATING TO CONCENTRATION OF PRODUCTION

Part of the general drive to make more manpower available to armament production is the concentration of production in a few more efficient firms. Such a concentration of production has long been one of the outstanding features of the German war effort; and indeed, of the entire pre-war Nazi economic policy. This process is now being intensified.

The main objective of the new drive is to release manpower for war production and possibly for the army. Results in quantitative terms are available only for the tobacco and cigarette industries. The output of cigarettes per worker per day varies from 4000 to 25,400 among small-scale producers and certain large-scale and highly mechanized firms. The press reports that by concentrating production in the latter, the number of workers employed in the industry will be reduced by 22 percent, from 12,500 to 9800. The corresponding plan for the tobacco industry provides for a reduction of employed persons from 6000 to 5000 (16 percent). According to the press, total output is expected to remain the same after the process of concentration has been completed.

It is significant that the concentration movement in the cigarette and tobacco industries is especially publicized in the German press, for it is in these industries that the most favorable results can be expected. Production has been sharply curtailed throughout the industry; but few firms, if any, have shut down completely. As a result, there is considerable excess capacity among the most efficient firms; and substantial economies of labor can be obtained by fully utilizing the idle machines of the most modern plants. Similar conditions probably exist in other consumers' goods industries; but it must be recalled that employment in this sector of the economy has already been reduced to a low level and, hence, that the absolute saving in manpower may be small, even though the percentage runs fairly high.

It is highly doubtful, moreover, that there is much room for concentration of production in heavy industries and other sectors of the economy, in which all firms, and especially the more efficient firms, are already producing at full capacity. Only to the extent that firms are not yet operating on a three-shift or 24-hour basis, would concentration of production be possible. In any case, percentage figures quoted in connection with the tobacco and cigarette industries (a reduction of the labor force by 16 percent and 22 percent respectively) cannot be considered indicative of the degree to which manpower could be released in other industries.

Systematic financial amalgamation and combination of large concerns - which has long been a characteristic feature of the German economy - seems to be increasing. It is possible and even likely that this financial consolidation, now being extended over the entire European Continent, in many cases prepares the way for actual physical integration of formerly independent units and, thereby, may also result in concentration of production.

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III. REORGANIZATION OF ECONOMIC STRUCTURE

The new economic measures in Germany also include a simplification of administration and reorganization of the complicated structure of industry and trade organizations, including the cartels. Their most noticeable results so far have been the stoppage of all post-war planning and administrative activities not directly connected with the conduct of the war. Moreover, the territorial organization of industry and trade has been radically revised; and so-called Reich Associations (Reichsvereinigungen), with far-reaching functions, are being established for various industries.

It is easy to overrate the importance of this process. A highly organized regime permits and requires reorganizations to meet changing conditons. In fact, public administration has been changed repeatedly in the past, most recently after the outbreak of the present war in 1939.

The purpose of the present changes is two-fold. There must be a reduction of the burden of government bureaucracy, which is becoming smaller in numbers while its tasks have been increasing. It is also necessary to reduce the paper work of individual firms. According to the Deutsche Volkswirt, a curtailment of about 40 percent has taken place in government personnel. This estimate is obviously excessive, even though the heavy drafts for the armed forces between November, 1941, and April, 1942, hit government workers especially hard. Meanwhile, the war has added additional problems, such as rationing, evacuations, claims for family support, administration of conquered countries, etc. Consequently, government personnel is presumably unable to devote sufficient time to work required in policy-making.

At the other end of the economic structure, the individual firm was snowed under by the amount of paper work which not only absorbed the energy of extra personnel in each firm, but delayed and made expensive the procurement of essential materials. The current reorganization, in so far as it eliminates duplication of offices and overlapping of functions, is expected to reduce paper work greatly.

As part of the general drive for relieving an overburdened administration, all post-war planning has been eliminated. A decree of April 15, 1942, orders the cessation of all new laws, decrees, and regulations not directly concerned with the conduct of the war. What this "Gesetzestopp" signifies may be seen from the fact that the number of laws, decrees, regulations, and special orders issued by the Ministry of Economics alone increased from a total of 138 in 1938 to a total of 403 in 1940.

In addition to the reduction in the number of new decrees, actual organizational changes have occurred in the field of industry and trade. The territorial organization has been drastically revised; and the functional organizations of producers, such as cartels, syndicates, etc., have been centralized and expanded. These changes can best be understood in relation to the situation in 1941; but they are not of sufficient importance to warrant full details in the body of this report. They are, therefore, given in Appendix A. The salient aspects of the reorganization are shown schematically in charts 1 and 2 in which the color brown represents State agencies and controls. These charts are not intended to be exhaustive, but only to give at a glance an over-all picture of economic organization before and after the changes.

The territorial reorganization abolished all District Chambers of Industry and Commerce and a substantial number of local chambers. New chambers, or Gauwirtschaftskammern, are established in each Gau (the territorial unit of the Nazi Party), under the leadership of the party Gauleiter or of a man in his "confidence."

The changes in the functional structure are a more important phase of the reorganization. All producers in certain industries have been coordinated into nation-wide Reich Associations (Reichsvereinigungen). They replace existing trade organizations, cartels, and syndicates which were designed to regulate prices and production in any given field. The functions of these Reich Associations are far-reaching: they regulate "market conditions" by drawing up production and import plans; they establish sales quotas both for the home market and abroad; they fix prices and conditions of payment and delivery; and they are concerned with the increase of the productive efficiency of member firms. The Reich Associations have also taken over in some instances the allocation of raw materials, formerly the function of the Reichsstellen. Finally, the Reich Associations are designed to form the nucleus for the European post-war economy; and in a few cases, they seem already to have extended their influence over allied industries in occupied and "friendly" countries.

The German press, with few exceptions, interprets the reorganization as an increase of self-administration, featuring the fact that the heads of the Reich Associations are leading industrialists. However, the statutes of the established Reich Associations show that appointment of the chairman and his deputies must be approved by the Reich Minister of Economics (Funk), and in at least one instance (coal) by Reich Marshal Goering. Moreover, official pronouncements of Funk, Keitel,, and Fischbock leave no doubt that the new associations can only decide how state-determined policy is to be carried out.

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Executive power remains in the hands of the leading Nazis heading the various Reich Ministries and other agencies, and the Reich Associations are simply administrative instruments. General economic policy continues to be determined by the Nazi Party.

IV. MEASURES RELATING TO LABOR

In Germany's current drive to strengthen her war economy, particular attention has been paid to Germany's most acute problem since 1939 - namely, her supply of labor. The heavy and continuous campaigning of the past year has prevented the furlough of soldiers for work in the factories and in the fields at home. The nature of the fighting and magnitude of casualties have increased the drain on German manpower, and there have been increased induction of skilled metal workers, miners, and other categories previously considered indispensable in home industry.

The German answer to the problem has been to establish an even greater centralization of control over labor. Fritz Sauckel, a ruthless party stalwart, has been placed in charge of all labor, domestic and foreign, with full power over official and party organizations so far as labor problems are concerned. He acts as an over-all coordinator, with control over conscription, allocation, and "combing-out" of labor from non-essential tasks. His measures are aimed at a more thorough and more careful use of home labor and at a greater importation of foreign labor.

The more thorough use of domestic labor has resulted in women being drawn into industry in increasing numbers. They now constitute almost half of all German wage and salary earners. Retired workers have gone back to jobs, and those reaching the retirement age have been forced to continue work. By order of Sauckel, school children ten years of age and older are to be used in agriculture from the middle of April to the middle of November. Over half the open cases of tuberculosis in Germany have been put to work, and special apparatus has been installed in some plants to permit the use of blind people.

A more careful use of German labor is also attempted. A great propaganda campaign is being conducted, particularly by the Labor Front, calling for the speeding-up of production. Special efforts are made to develop and extend mass-production techniques and other means of increasing industrial efficiency. "Shock troops" of Nazi party members have been set up in each factory to provide an example and guard against slackening of the pace. Absenteeism is severely punished. "Efficiency wages" based on piece rates are being introduced in many industries, often by cutting the pay of those producing least without increasing the wages of the better workers. Training and re-training is being vigorously pursued.

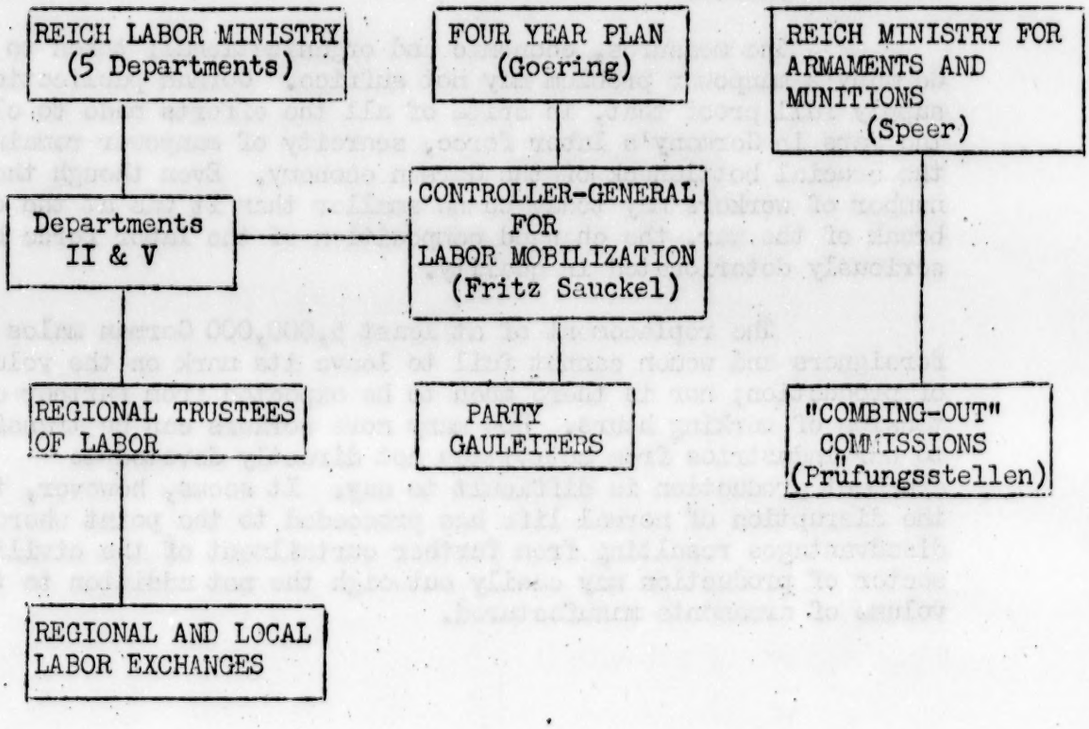
The second main effort toward increasing the supply of labor is the importation of foreign workers from Germany's allies and the occupied countries of Europe. Part of this is forced labor, while other groups are attracted by higher wages and food rations given by Germany.

Foreigners, not including prisoners of war, now total two and a half million, according to official German sources. Prisoners of war working in Germany number 1,600,000 not counting Russians, who are variously estimated at between 300,000 and 800,000. The number of foreigners is being steadily increased.

Recruiting of foreign labor is centralized in a Foreign Employment Bureau, which has control over labor exchanges set up in virtually all the conquered territories. This has now been placed under Sauckel.

There is evidence both from the measures taken and from organizational changes that Fritz Sauckel has become a very important figure in the Nazi hierarchy. He was appointed at the request of Speer in March, 1942. His official post is Commissioner-General for Labor (General-Bevollmächtigter für den Arbeitsoinsatz) within the Four Year Plan. In the field of labor, therefore, Sauckel assumes powers which were formerly exercised by the Four Year Plan, the Reich Ministry of Labor, and the Reich Ministry for Armaments and Munitions. The organizational results of this centralization of labor controls is shown in chart 3.

Chart 3 -- New Labor Controls in Germany, 1942.



Sauckel has various agencies at his disposal. He has appointed the party Gauleiters to newly created posts of Gau Controllers of Labor Mobilization, to act as his watchdogs over officials, businessmen, and workers. The existing apparatus of the Labor Ministry dealing with wages and allocation (Departments II and V) have been placed at Sauckel's disposal. These departments have jurisdiction over the regional Trustees of Labor (Treuhander der Arbeit), who have the power to set wages, conscript labor, and pass on virtually all hiring and firing of workers. The trustees operate through regional and local Labor Exchanges (Arbeitsamt), which keep a complete index of all German workers, their skills, and experience.

Other organizations now under Sauckel's supervision are the "Combing-Out" Commissions, which are composed of Labor Exchange functionaries, members of the official Chambers of Trade and Industry, members of the Army Economic Command, the Labor Front, etc. The commissions enforce labor priorities in individual plants or localities, suggest means of increasing efficiency, and order the release of labor from non-essential or wasteful employment. They also participate in the establishment of Reich Associations and in shutting down inefficient plants.

The measures, economic and organizational, taken to solve Germany's manpower problem may not suffice. German publications supply full proof that, in spite of all the efforts made to close the gaps in Germany's labor force, scarcity of manpower remains the crucial bottleneck of the German economy. Even though the number of workers may today be no smaller than it was at the outbreak of the war, the changed composition of the labor force has seriously deteriorated in quality.

The replacement of at least 5,000,000 German males by foreigners and women cannot fail to leave its mark on the volume of production; nor is there much to be expected from further extension of working hours. How many more workers can be transferred to war industries from activities not directly devoted to armament production is difficult to say. It seems, however, that the disruption of normal life has proceeded to the point where the disadvantages resulting from further curtailment of the civilian sector of production may easily outweigh the net addition to the volume of armaments manufactured.

V. MEASURES RELATED TO AGRICULTURE

Nazi Germany entered the war with a very elaborate and highly organized agricultural control mechanism, the Reich Food Estate (Reichsnahrstand). This organization, established as early as 1933, regulates and stimulates every aspect of agricultural production and processing with a view to assuring Germany's food supply.

In August, 1939, special Food Control Offices were created for the purpose of rationing. The Reich Food Estate and the Food Control Offices were placed under the direct control of Albert Darre' (the leader of the Reich Food Estate).

The present changes affect this very complete control mechanism only in so far as Darre', a party member since 1930, has been given a long vacation. The organizational set-up, however, is fully maintained; and Darre's place has been taken by Herbert Backe, former Secretary of State in the Ministry of Food and Agriculture, and a good Nazi.

Darre's dismissal is probably related to the food situation, which prompted the recent substantial reduction of food rations. These new reductions are not only unique, in that they affect all of the basic food categories, but they are actually of a magnitude previously unparalleled for any one of these commodities. Rations for normal consumers, workers, and for those who work long hours or at night, were cut more than the rations of very heavy workers.

In the light of a careful appraisal of the German food situation as it is known to us, it appears that

(1) The reductions of rations are designed to conserve German supplies of foodstuffs and to adjust consumption to an outlook of long-term supply.

(2) The section of the German population included within the special working categories is still provided with nutritionally adequate diets, while the normal consumers, who make the smallest contribution to the war effort, will have diets which are only on the margin of adequacy.

APPENDIX ECONOMIC REORGANIZATION

In order to present a clearer picture of the present reorganization of German industry and trade organizations, an attempt has been made to describe it in greater detail in the light of the economic structure as it existed prior to 1942.

The salient features of the German economic structure prior to 1942 are grasped more easily if a distinction is made between the executive and policy-making organs of the government on one hand, and the so-called "self-administrative" organizations of industry and trade, including cartels, on the other. Among the ograns of government, those most affected by the reorganization are the Reich Ministry of Economics (Dr. Funk), the Four Year Plan (Goering), the Commission for Price Control (Fischboek), and the Reich Control Boards, Reichsstellen. The most important of the "self-administrative" organizations are the cartels, which exercise important functions of market regulation (related to supply and price) under the control and within the framework of Nazi economic policy.

Less important than the cartels are the functional and regional organizations. The functional organization is represented by the Estates of Industry and Trade (and their various subdivisions, such as Reichsgruppen, Hauptgruppen, Wirtschaftsgruppen, and Fachgruppen), while the territorial organization is represented by a system of Chambers of Industry and Commerce.

Those organizations possess no executive powers of economic planning and control. Their functions are restricted to tendering assistance to their members in questions of taxation, foreign trade, marketing, etc., and to the promotion of vocational training and research institutes. Matters of prices, production, wages, etc., are expressly outside their jurisdiction. However, these organizations are convenient instrumentalities of government regulation, and all government agencies maintain close relations with them. In recent years, more and more administrative functions have been shifted to these organizations.

Charts 1 and 2 in the report indicate in a highly simplified manner the main relationships between industry and the state before and after the reorganization. Neither of the two charts is intended to be exhaustive. Chart 1 shows the executive and policy-making organs of the government in dark brown, and indicates by brown lines their relationships with the self-administrative bodies before the present reorganization. In Chart 1, the cartels are shown in red, the Estates of Industry and Trade in yellow, the system of Chambers of Commerce and Industry in green.

Chart 2 indicates reorganization since the beginning of 1942. The territorial organization of industry is drastically revised. All District Chambers of Industry and Commerce are abolished,

as well as a substantial number of local chambers. New chambers are established for each "Gau," the regional unit of the Nazi Party. These new Gauwirtschaftskammern establish special sections for each of the six national branches of the Estate of Industry and Trade. They take over functions which were performed jointly by District Chambers and the abolished local chambers. The local chambers which remain, and they are a majority, are under the new Chambers. In this manner, duplication of agencies will be avoided; consequently, time and energy of the personnel both within the chambers and the individual member concerns will be saved and made available for other purposes. The leader of the new Economic Chambers is either the party Gauleiter, himself, or a man who has the "confidence" of the Gauleiter.

The new Reich Associations (Reichsvereiningungen) do not in any manner eliminate the Estate of Industry and Trade and its numerous sub-divisions. They do, however, absorb the cartels in existence in their particular industry; and in some cases, they seem to assume the functions of the Reich Boards of Control (Reichsstellen). Their general significance has been outlined above.